



ADAMS
FUNDS

**ADAMS
DIVERSIFIED EQUITY
FUND**

THIRD QUARTER REPORT
SEPTEMBER 30, 2019

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Dear Fellow Shareholders,

The swings in the stock market during the third quarter were like riding a roller coaster. Markets reached new highs in July based on optimism about the Federal Reserve's decision to cut interest rates for the first time in a decade, only to fall on looming recession concerns in August. As market leadership abruptly shifted from growth to value stocks, markets climbed back to near-record levels in September. The S&P 500 ended the quarter up 1.7%, bringing its year-to-date return to 20.6%, its best performance since 1997. Our Fund increased 1.4% for the quarter and its 21.6% return for the first nine months of the year exceeded the S&P 500 by 1.0%.

Despite protests in Hong Kong, fears of the ongoing China trade war, continued uncertainty regarding Brexit, attacks on Saudi Arabia's oil facilities, and finally the possibility of impeaching the President of the United States, the market has proven to be resilient. Additionally, key economic data is beginning to make the case that the economy is showing signs of slowing. Consumer confidence declined to a seven-month low in August. A key measure of manufacturing activity declined for two consecutive quarters, falling to its lowest level in 10 years. And corporate profits are expected to fall for the third straight quarter this year. Against this backdrop, the stock market has so far been undeterred, ultimately ending the third quarter higher.



"Investments in Health Care, Materials, and Technology were the strongest sectors relative to the S&P 500 for the third quarter."

In our Fund, investments in Health Care, Materials, and Technology were the strongest sectors relative to the S&P 500 for the third quarter. Consumer Discretionary and Industrials detracted from performance.

It is not often that a sector with a negative return is the biggest contributor to relative performance, but that was the case this quarter. Our Health Care stocks only declined 0.7%, less than the 2.3% decline for the sector. We benefited from investments in Medical Equipment stocks, including Edwards Lifesciences and Medtronic. Edwards develops products and technologies to treat heart disease and recently received approval to provide its minimally-invasive heart valve equipment to low-risk patients. This effectively doubles the size of its addressable market and drove the stock up 19.0%. After resetting expectations early in 2019, Medtronic has been executing on its plans and has developed a solid pipeline that should enable it to reaccelerate growth in 2020. The company, which develops and sells medical devices, also stands to benefit from the larger market potential for heart valve equipment. Medtronic gained 12.7% for the period.

LETTER TO SHAREHOLDERS (CONTINUED)

While the Materials sector makes up only 2.2% of our Fund, it had an outsized impact on performance for the quarter. Due to very good stock selection, our investments in Materials increased 5.9%, compared to a 0.1% decline in its benchmark. We benefited from owning Sherwin-Williams, the coatings company, which rose 20.2%. The company has generated stronger-than-expected results due to higher volumes and better pricing, which led to margin expansion. With a robust order backlog, low prices for raw materials, and continued cost synergies, we believe Sherwin-Williams is well positioned to continue generating strong returns. We recently added Celanese, a specialty chemical company that serves a diverse set of end-use markets, including paints and coatings, textiles, and automotive applications. We like that the company operates in less commoditized end-markets than many chemical companies. Management is also committed to increasing shareholder value through M&A or other strategic actions.

After a strong run for the Consumer Discretionary sector, our returns for the quarter were disappointing, declining 4.1% and underperforming the sector. Our investment in Ulta Beauty weighed on our returns. Ulta, a leading beauty specialty retailer, missed quarterly earnings expectations and provided a disappointing outlook. It is experiencing a meaningful slowdown in its cosmetics business, which accounts for approximately half of sales. While we still believe in Ulta's unique store format and long-term store expansion opportunity, we sold our position due to near-term uncertainties. We used the proceeds to add Marriott International, the world's largest hotel company, to the Fund. Marriott has strong global brands, such as Marriott, Ritz-Carlton, and Westin, with significant room to scale, a robust pipeline of new hotels, and a strong customer loyalty program. It also generates significant free cash flow which it returns to shareholders through dividends and share repurchases.

For the nine months ended September 30, 2019, the total return on the Fund's net asset value ("NAV") per share (with dividends and capital gains reinvested) was 21.6%. This compares to a 20.6% total return for the S&P 500 and a 19.5% total return for the Lipper Large-Cap Core Funds Average over the same time period. The total return on the market price of the Fund's shares for the period was 26.8%.

For the twelve months ended September 30, 2019, the Fund's total return on NAV was 6.4%. Comparable figures for the S&P 500 and Lipper Large-Cap Core Funds Average were 4.3% and 3.7%, respectively. The Fund's total return on market price was 9.1%.

During the first nine months of this year, the Fund paid distributions to shareholders in the amount of \$15.9 million, or \$.15 per share, consisting of \$.02 net investment income and \$.02 long-term capital gain, realized in 2018, and \$.11 of net investment income realized in 2019, all taxable in 2019. These constitute

LETTER TO SHAREHOLDERS (CONTINUED)

the first three payments toward our annual 6.0% minimum distribution rate commitment. Additionally, the Fund repurchased 793,488 shares of its Common Stock during the past nine months. The shares were repurchased at an average price of \$15.01 and a weighted average discount to NAV of 13.1%, resulting in a \$.02 increase to NAV per share.

We thank you for investing with us and do not take your trust for granted. Although we face higher levels of uncertainty in today's market, we remain committed to maintaining our disciplined investment approach, which focuses on generating consistent returns for our shareholders over the long term.

By order of the Board of Directors,



Mark E. Stoeckle
Chief Executive Officer & President
October 17, 2019

Disclaimers

This report contains "forward-looking statements" within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934. By their nature, all forward-looking statements involve risks and uncertainties, and actual results could differ materially from those contemplated by the forward-looking statements. Several factors that could materially affect the Fund's actual results are the performance of the portfolio of stocks held by the Fund, the conditions in the U.S. and international financial markets, the price at which shares of the Fund will trade in the public markets, and other factors discussed in the Fund's periodic filings with the Securities and Exchange Commission.

This report is transmitted to the shareholders of the Fund for their information. It is not a prospectus, circular or representation intended for use in the purchase or sale of shares of the Fund or of any securities mentioned in the report. The rates of return will vary and the principal value of an investment will fluctuate. Shares, if sold, may be worth more or less than their original cost. Past performance is no guarantee of future investment results.

SUMMARY FINANCIAL INFORMATION

(unaudited)

| | 2019 | 2018 |
|--|-----------------|-----------------|
| <i>At September 30:</i> | | |
| Net asset value per share | \$ 17.92 | \$ 19.34 |
| Market price per share | \$ 15.84 | \$ 16.67 |
| Shares outstanding | 105,412,589 | 100,868,448 |
| Total net assets | \$1,888,506,024 | \$1,950,866,811 |
| Unrealized appreciation on investments | \$ 652,972,664 | \$ 685,210,378 |

For the nine months ended September 30:

| | | |
|---|---------------|----------------|
| Net investment income | \$ 14,685,904 | \$ 14,939,543 |
| Net realized gain (loss) | \$ 56,731,649 | \$ 147,095,972 |
| Cost of shares repurchased | \$ 11,910,306 | \$ 13,351,346 |
| Shares repurchased | 793,488 | 855,556 |
| Total return (based on market price) | 26.8% | 12.0% |
| Total return (based on net asset value) | 21.6% | 11.3% |

Key ratios:

| | | |
|---|-------|-------|
| Expenses to average net assets* | 0.66% | 0.56% |
| Net investment income to average net assets* | 1.10% | 1.09% |
| Portfolio turnover* | 55.5% | 62.7% |
| Net cash & short-term investments to net assets | 0.6% | 1.0% |

* Annualized

TEN LARGEST EQUITY PORTFOLIO HOLDINGS

September 30, 2019

(unaudited)

| | Market Value | Percent of Net Assets |
|-------------------------------------|----------------------|------------------------------|
| Microsoft Corporation | \$104,939,844 | 5.6% |
| Amazon.com, Inc. | 71,693,083 | 3.8 |
| Apple Inc. | 65,466,431 | 3.5 |
| Visa Inc. Class A | 51,843,814 | 2.7 |
| Alphabet Inc. Class A & Class C | 47,108,379 | 2.5 |
| Bank of America Corp. | 43,241,608 | 2.3 |
| JPMorgan Chase & Co. | 39,838,065 | 2.1 |
| Johnson & Johnson | 39,435,024 | 2.1 |
| Mastercard Incorporated Class A | 37,775,387 | 2.0 |
| Adams Natural Resources Fund, Inc.* | 34,616,632 | 1.8 |
| | \$535,958,267 | 28.4% |

* Non-controlled affiliated closed-end fund

SCHEDULE OF INVESTMENTS

September 30, 2019
(unaudited)

| | Shares | Value (a) |
|--|-----------|--------------------|
| Common Stocks — 99.4% | | |
| Communication Services — 8.1% | | |
| Alphabet Inc. Class A (b) | 27,400 | \$ 33,459,236 |
| Alphabet Inc. Class C (b) | 11,197 | 13,649,143 |
| AT&T Inc. | 853,282 | 32,288,191 |
| Comcast Corporation Class A | 668,200 | 30,122,456 |
| Facebook, Inc. Class A (b) | 91,100 | 16,223,088 |
| Netflix, Inc. (b) | 15,000 | 4,014,300 |
| Verizon Communications Inc. | 86,800 | 5,239,248 |
| Walt Disney Company | 140,100 | 18,257,832 |
| | | <u>153,253,494</u> |
| Consumer Discretionary — 9.8% | | |
| Amazon.com, Inc. (b) | 41,300 | 71,693,083 |
| Chipotle Mexican Grill, Inc. (b) | 21,600 | 18,154,152 |
| Consumer Discretionary Select Sector SPDR Fund | 85,600 | 10,331,920 |
| Dollar General Corporation | 103,337 | 16,424,383 |
| Lowe's Companies, Inc. | 152,800 | 16,801,888 |
| Marriott International, Inc. Class A | 121,100 | 15,061,207 |
| NIKE, Inc. Class B | 238,000 | 22,352,960 |
| Tractor Supply Company | 159,000 | 14,379,960 |
| | | <u>185,199,553</u> |
| Consumer Staples — 7.6% | | |
| Coca-Cola Company | 533,200 | 29,027,408 |
| Costco Wholesale Corporation | 63,600 | 18,323,796 |
| Mondelez International, Inc. Class A | 313,900 | 17,364,948 |
| PepsiCo, Inc. | 118,700 | 16,273,770 |
| Philip Morris International Inc. | 197,000 | 14,958,210 |
| Procter & Gamble Company | 115,350 | 14,347,233 |
| Unilever plc Sponsored ADR | 193,400 | 11,623,340 |
| Walmart Inc. | 188,400 | 22,359,312 |
| | | <u>144,278,017</u> |
| Energy — 5.0% | | |
| Adams Natural Resources Fund, Inc. (c) | 2,186,774 | 34,616,632 |
| BP plc Sponsored ADR | 80,800 | 3,069,592 |
| Cheniere Energy, Inc. (b) | 134,300 | 8,468,958 |
| Chevron Corporation | 74,800 | 8,871,280 |
| Diamondback Energy, Inc. | 74,200 | 6,671,322 |
| EOG Resources, Inc. | 87,200 | 6,471,984 |
| Exxon Mobil Corporation | 188,700 | 13,324,107 |
| Total S.A. Sponsored ADR | 60,800 | 3,161,600 |
| Valero Energy Corporation | 111,900 | 9,538,355 |
| | | <u>94,193,830</u> |

SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2019
(unaudited)

| | Shares | Value (a) |
|--------------------------------------|-----------|--------------------|
| Financials — 13.5% | | |
| American Express Company | 238,500 | \$ 28,209,780 |
| Bank of America Corp. | 1,482,400 | 43,241,608 |
| Berkshire Hathaway Inc. Class B (b) | 60,900 | 12,668,418 |
| Fifth Third Bancorp | 606,100 | 16,595,018 |
| Intercontinental Exchange, Inc. | 226,700 | 20,917,609 |
| JPMorgan Chase & Co. | 338,500 | 39,838,065 |
| MetLife, Inc. | 522,600 | 24,645,816 |
| T. Rowe Price Group | 167,400 | 19,125,450 |
| Travelers Companies, Inc. | 134,400 | 19,983,936 |
| U.S. Bancorp | 483,000 | 26,729,220 |
| Wells Fargo & Company | 55,300 | 2,789,332 |
| | | <u>254,744,252</u> |
| Health Care — 13.4% | | |
| Abbott Laboratories | 365,000 | 30,539,550 |
| Agilent Technologies, Inc. | 242,400 | 18,575,112 |
| Edwards Lifesciences Corporation (b) | 122,900 | 27,026,939 |
| Health Care Select Sector SPDR Fund | 72,400 | 6,525,412 |
| Johnson & Johnson | 304,800 | 39,435,024 |
| Medtronic plc | 222,700 | 24,189,674 |
| Merck & Co., Inc. | 408,700 | 34,404,366 |
| Pfizer Inc. | 211,940 | 7,615,004 |
| Thermo Fisher Scientific Inc. | 93,800 | 27,321,126 |
| UnitedHealth Group Incorporated | 90,700 | 19,710,924 |
| Zoetis Inc. Class A | 139,600 | 17,392,764 |
| | | <u>252,735,895</u> |
| Industrials — 9.3% | | |
| Boeing Company | 38,600 | 14,686,142 |
| Cintas Corporation | 31,000 | 8,311,100 |
| Delta Air Lines, Inc. | 216,200 | 12,453,120 |
| General Electric Company | 153,622 | 1,373,381 |
| Honeywell International Inc. | 203,000 | 34,347,600 |
| Industrial Select Sector SPDR Fund | 311,400 | 24,173,982 |
| Kansas City Southern | 109,400 | 14,551,294 |
| Masco Corporation | 338,700 | 14,117,016 |
| Republic Services, Inc. | 223,200 | 19,317,960 |
| Union Pacific Corporation | 148,300 | 24,021,634 |
| United Rentals, Inc. | 68,200 | 8,500,448 |
| | | <u>175,853,677</u> |

SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2019
(unaudited)

| | Shares | Value (a) |
|--|---------|---------------|
| Information Technology — 23.9% | | |
| Accenture plc Class A | 131,300 | \$ 25,255,555 |
| Adobe Inc. (b) | 110,100 | 30,415,125 |
| Apple Inc. | 292,300 | 65,466,431 |
| Broadcom Inc. | 64,800 | 17,889,336 |
| Cisco Systems, Inc. | 428,500 | 21,172,185 |
| Fidelity National Information Services, Inc. | 152,200 | 20,206,072 |
| Lam Research Corporation | 55,100 | 12,734,161 |
| Mastercard Incorporated Class A | 139,100 | 37,775,387 |
| Microsoft Corporation | 754,800 | 104,939,844 |
| Oracle Corporation | 122,200 | 6,724,666 |
| Palo Alto Networks, Inc. (b) | 71,400 | 14,553,462 |
| salesforce.com, inc. (b) | 139,800 | 20,751,912 |
| Texas Instruments Incorporated | 164,100 | 21,208,284 |
| Visa Inc. Class A | 301,400 | 51,843,814 |
| | | 450,936,234 |
| Materials — 2.3% | | |
| Air Products and Chemicals, Inc. | 50,300 | 11,159,558 |
| Ball Corporation | 103,000 | 7,499,430 |
| Celanese Corporation | 67,100 | 8,205,659 |
| DuPont de Nemours, Inc. | 57,400 | 4,093,194 |
| Sherwin-Williams Company | 21,500 | 11,822,205 |
| | | 42,780,046 |
| Real Estate — 2.7% | | |
| American Tower Corporation | 77,600 | 17,159,688 |
| AvalonBay Communities, Inc. | 70,300 | 15,137,699 |
| Prologis, Inc. | 219,600 | 18,714,312 |
| | | 51,011,699 |
| S&P 500 Index — 0.4% | | |
| SPDR S&P 500 ETF Trust | 28,600 | 8,487,622 |
| | | 8,487,622 |
| Utilities — 3.4% | | |
| Ameren Corporation | 174,700 | 13,984,735 |
| FirstEnergy Corp. | 282,400 | 13,620,152 |
| NextEra Energy, Inc. | 90,300 | 21,038,997 |
| WEC Energy Group Inc. | 156,100 | 14,845,110 |
| | | 63,488,994 |
| Total Common Stocks | | |
| (Cost \$1,225,569,916) | | 1,876,963,313 |

SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2019
(unaudited)

| | Shares | Value (a) |
|--|-----------|------------------------|
| Other Investments — 0.0% | | |
| Financials — 0.0% | | |
| Adams Funds Advisers, LLC (b)(d) | | |
| (Cost \$150,000) | | \$ 466,000 |
| Short-Term Investments — 0.6% | | |
| Money Market Funds — 0.6% | | |
| Fidelity Investments Money Market Funds - Prime | | |
| Money Market Portfolio (Institutional Class), | | |
| 1.99% (e) | 9,897,670 | 9,900,639 |
| Northern Institutional Treasury Portfolio, 1.93% (e) | 1,239,303 | 1,239,303 |
| Total Short-Term Investments | | <u>11,139,942</u> |
| (Cost \$11,139,502) | | |
| Total — 100.0% | | 1,888,569,255 |
| (Cost \$1,236,859,418) | | (63,231) |
| Other Assets Less Liabilities — 0.0% | | <u>\$1,888,506,024</u> |
| Net Assets — 100.0% | | |

SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2019
(unaudited)

Total Return Swap Agreements — 0.1%

| Terms | Description | | Termination Date | Notional Amount | Value and Unrealized Appreciation (Assets) | Value and Unrealized Depreciation (Liabilities) |
|---|---------------|---|------------------|-----------------|--|---|
| | Contract Type | Underlying Security | | | | |
| Receive total return on underlying security and pay financing amount based on notional amount and daily U.S. Federal Funds rate plus 0.55%. | Long | Intel Corporation (199,200 shares) | 6/17/2020 | \$ 9,101,269 | \$1,127,771 | \$ — |
| Pay total return on underlying security and receive financing amount based on notional amount and daily U.S. Federal Funds rate less 0.45%. | Short | Technology Select Sector SPDR Fund (120,500 shares) | 6/17/2020 | (9,076,831) | — | (627,588) |
| Receive total return on underlying security and pay financing amount based on notional amount and daily U.S. Federal Funds rate plus 0.55%. | Long | Amphenol Corporation Class A (106,600 shares) | 9/16/2020 | 9,126,570 | 1,155,363 | — |
| Pay total return on underlying security and receive financing amount based on notional amount and daily U.S. Federal Funds rate less 0.45%. | Short | iShares Russell 1000 ETF (57,700 shares) | 9/16/2020 | (9,116,623) | — | (399,324) |
| Receive total return on underlying security and pay financing amount based on notional amount and daily U.S. Federal Funds rate plus 0.55%. | Long | Intuit Inc. (35,700 shares) | 10/29/2020 | 9,359,498 | 133,935 | — |
| Pay total return on underlying security and receive financing amount based on notional amount and daily U.S. Federal Funds rate less 0.45%. | Short | Technology Select Sector SPDR Fund (119,100 shares) | 10/29/2020 | (9,463,424) | — | (127,330) |
| Gross unrealized gain (loss) on open total return swap agreements | | | | | <u>\$2,417,069</u> | <u>\$(1,154,242)</u> |
| Net unrealized gain on open total return swap agreements (f) | | | | | <u>\$1,262,827</u> | |

- (a) Common stocks are listed on the New York Stock Exchange or NASDAQ and are valued at the last reported sale price on the day of valuation.
- (b) Presently non-dividend paying.
- (c) Non-controlled affiliate, a closed-end sector fund, registered as an investment company under the Investment Company Act of 1940.
- (d) Controlled affiliate valued using fair value procedures.
- (e) Rate presented is as of period-end and represents the annualized yield earned over the previous seven days.
- (f) Counterparty for all open total return swap agreements is Morgan Stanley. At September 30, 2019, \$800,000 in cash collateral was held by the Fund.

Information regarding transactions in equity securities during the quarter can be found on our website at: www.adamsfunds.com.

Board of Directors

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Mark E. Stoeckle ⁽¹⁾

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(3) *Member of Compensation Committee*

(4) *Member of Nominating and Governance Committee*

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Assistant Treasurer and Director of Human Resources

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